



REDACTED – FOR PUBLIC INSPECTION

**VIA ECFS**

June 27, 2017

Marlene H. Dortch, Secretary  
Federal Communications Commission  
Office of the Secretary  
445 12th Street, SW  
Room TW-A325  
Washington, DC 20554

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**RE: Scio Mutual Telephone Association, SAC 532397  
Submission of FCC Form 481 Annual Report  
WC Docket No. 14-58 – ETC Annual Reports and Certifications**

Dear Ms. Dortch:

In accordance with the annual reporting requirements of 47 C.F.R. §§54.313 and 54.422, Scio Mutual Telephone Association (“the Cooperative”), Study Area Code 532397, hereby files its FCC Form 481 – Carrier Annual Reporting Data Collection Form. *The version of the Company’s FCC Form 481 submitted via the FCC’s Electronic Comment Filing System (ECFS) is a redacted version of the filing that contains no confidential information.*

Section 3005 of FCC Form 481 requires privately-held rate-of-return carriers receiving high cost support to attach a full and complete annual report of the company’s financial condition and operations pursuant to 47 C.F.R. §54.313(f)(2). Scio Mutual Telephone Association, by its authorized representative, hereby seeks confidential treatment of its financial annual report pursuant to the March 22, 2016 *Protective Order* in WC Docket Nos. 10-90 and 14-58.<sup>1</sup> The *Protective Order* specifically covers the information required by 47 C.F.R. §54.313(f)(2).

Scio Mutual Telephone Association is providing to the Office of the Secretary, under seal, this cover letter and the FCC Form 481 filing which includes the confidential information that is being requested to be withheld from public inspection.

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T (509) 747-2600  
F (509) 624-5129

601 W. Riverside Avenue  
Suite 1800  
Spokane, WA 99201

Assurance, tax, and consulting offered through  
Moss Adams LLP. Wealth management offered through  
Moss Adams Wealth Advisors LLC. Investment banking  
offered through Moss Adams Capital LLC.

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<sup>1</sup> *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket Nos. 10-90 and 14-58, Protective Order, 31 FCC Rcd 2089 (2016).



MOSSADAMS

Each page of the Cooperative's financial annual report and the financial summary page on the FCC Form 481 bear the legend, "CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

The confidential information has also been submitted to the Universal Service Administrative Company through its E-File system as attachments to the FCC Form 481.

In the filing submitted via the ECFS, all pages containing confidential information bear the legend "REDACTED – FOR PUBLIC INSPECTION."

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions except for the confidentiality markings.

The FCC Form 481 has also been filed with the relevant state commissions and Tribal governments, as appropriate.

Please contact me if you have any questions.

Sincerely,

Tym Rutkowski  
Authorized Representative for  
Scio Mutual Telephone Association

TR/jr

cc: Deborah Hogan, Scio Mutual Telephone Association

**FCC Form 481 - Carrier Annual Reporting  
Data Collection Form**FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010>	Study Area Code	532397
<015>	Study Area Name	SCIO MUTUAL TEL ASSN
<020>	Program Year	2018
<030>	Contact Name: Person USAC should contact with questions about this data	Deborah Hogan
<035>	Contact Telephone Number: Number of the person identified in data line <030>	5033943369 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	debbie.hogan@smta.coop
	Form Type	54.313 and 54.422

<010>	Study Area Code	532397
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<210> For the prior calendar year, were there any reportable voice service outages? No

Page 2

**(300) Unfulfilled Service Request  
Data Collection Form**FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

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&lt;300&gt; Unfulfilled service request (voice)

0

&lt;310&gt; Detail on attempts (voice)

Name of Attached Document

&lt;320&gt; Unfulfilled service request (broadband)

0

&lt;330&gt; Detail on attempts (broadband)

Name of Attached Document

(400) Number of Complaints per 1,000 customers Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010>	Study Area Code	532397
<015>	Study Area Name	SCIO MUTUAL TEL ASSN
<020>	Program Year	2018
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<035>	Contact Telephone Number - Number of person identified in data line <030>	5033943369 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop
<400>	Select from the drop-down list to indicate how you would like to report voice complaints (zero or greater) for voice telephony service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize.	Offered only fixed voice
<410>	Complaints per 1000 customers for fixed voice	0 . 0
<420>	Complaints per 1000 customers for mobile voice	
<430>	Select from the drop-down list to indicate how you would like to report end-user customer complaints (zero or greater) for broadband service in the prior calendar year for each service area in which you are designated an ETC for any facilities you own, operate, lease, or otherwise utilize.	Offered only fixed broadband
<440>	Complaints per 1000 customers for fixed broadband	0 . 0
<450>	Complaints per 1000 customers for mobile broadband	

**(500) Compliance With Service Quality Standards and Consumer Protection Rules**  
**Data Collection Form**

FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop
<500>	Certify compliance with applicable service quality standards and consumer protection rules	Yes
<510>	Descriptive document for Service Quality Standards & Consumer Protection Rules Compliance	
<515>	Certify compliance with applicable minimum service standards	

**(600) Functionality in Emergency Situations**  
**Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@enta.coop
<600>	Certify compliance regarding ability to function in emergency situations	Yes
<610>	Descriptive document for Functionality in Emergency Situations	532397OR610 . pdf



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<015>	Study Area Name	SCIO MUTUAL TEL ASSN
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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop

<701>	Residential Local Service Charge Effective Date	1/1/2017
<702>	Single State-wide Residential Local Service Charge	14.5

[illegible]

<010>	Study Area Code	532397
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-- See attached worksheet --

**(800) Operating Companies  
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop
<810>	Reporting Carrier	Scio Mutual Telephone Association
<811>	Holding Company	Not Applicable
<812>	Operating Company	Scio Mutual Telephone Association

[illegible]

**(900) Tribal Lands Reporting  
Data Collection Form**

 FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

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&lt;900&gt; Does the filing entity offer tribal land services? (Y/N) No

&lt;910&gt; Tribal Land(s) on which ETC Serves

&lt;920&gt; Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

Select Yes or No or Not Applicable

**(1000) Voice and Broadband Service Rate Comparability  
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop

<1000> Voice services rate comparability certification Yes

<1010> Attach detailed description for voice services rate comparability compliance 532397OR1010.pdf

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Name of Attached Document

<1020> Broadband comparability certification Yes - Pricing is no more than the most recent applicable benchmark announced by the Wireline Competition Bureau

<1030> Attach detailed description for broadband comparability compliance 532397OR1030.pdf

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Name of Attached Document

**(1100) No Terrestrial Backhaul Reporting  
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	532397
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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop

&lt;1100&gt; Certify whether terrestrial backhaul options exist (Y/N)

Yes

&lt;1130&gt; Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).

**(1200) Terms and Condition for Lifeline Customers**  
**Lifeline**  
**Data Collection Form**

FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

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<035>	Contact Telephone Number - Number of person identified in data line <030>	5033943369 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop

532397OR1210.pdf

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of Attached Document

<1220> Link to Public Website

HTTP

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- <1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, ☒
- <1222> Details on the number of minutes provided as part of the plan, ☒
- <1223> Additional charges for toll calls, and rates for each such plan. ☒

**(2005) Price Cap Carrier Additional Documentation**

FCC Form 481

**Data Collection Form**

OMB Control No. 3060-0986/OMB Control No. 3060-0819

*Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

July 2013

<010>	Study Area Code	532397
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<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@emta.coop

Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of Incremental High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

**Incremental Connect America Phase I reporting**

- <2011> 3rd Year Certification 47 CFR §54.313(b)(1)(ii) - Note that for the July 2017 certification, this applies to Round 2 recipients of Incremental Support.
- <2022> Recipient certifies, representing year three after filing a notice of acceptance of funding pursuant to 54.312(c), that the locations in question are not receiving support under the Broadband Initiatives Program or the Broadband Technology Opportunities Program for projects that will provide broadband with speeds of at least 4 Mbps/1Mbps - 54.313(b)(2)(i). Round 2 recipients only.
- <2023> The attachment on line 2024 includes a statement of the total amount of capital funding expended in the previous year in meeting Connect America Phase I deployment obligations, accompanied by a list of census blocks indicating where funding was spent. This covers year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2024A> Round 2 Recipient of Incremental Support?
- <2024B> Attach list of census blocks indicating where funding was spent in year three - 54.313(b)(2)(ii). Round 2 recipients only.
- <2025A> Round 2 Recipient of Incremental Support?
- <2025B> Attach geocoded Information for Phase I milestone reports (Round 2 for year three) - Connect America Fund , WC Docket 10-90, Report and Order, FCC 13-73, paragraph 35 (May 22, 2013).
- <2015> 2016 and future Frozen Support Certification 47 CFR § 54.313(c)(4)

Name of Attached Document Listing  
Required Information

Name of Attached Document Listing  
Required Information



**(2005) Price Cap Carrier Additional Documentation**

FCC Form 481

**Data Collection Form**

OMB Control No. 3060-0986/OMB Control No. 3060-0819

*Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

July 2013

**Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}**

&lt;2016&gt; Certification support used to build broadband

**Connect America Phase II Reporting {47 CFR § 54.313(e)}**

&lt;2017A&gt; Connect America Fund Phase II recipient?

&lt;2017C&gt; Total amount of Phase II support, if any, the price cap carrier used for capital expenditures in 2016.

&lt;2018&gt; Attach the number, names, and addresses of community anchor institutions to which the carrier newly began providing access to broadband service in the preceding calendar year - 54.313(e)(1)(ii)(A)

Name of Attached Document Listing  
Required Information

&lt;2019&gt; Recipient certifies that it bid on category one telecommunications and Internet access services in response to all FCC Form 470 postings seeking broadband service that meets the connectivity targets for the schools and libraries universal service support program for eligible schools and libraries located within any area in a census block where the carrier is receiving Phase II model-based support, and that such bids were at rates reasonably comparable to rates charged to eligible schools and libraries in urban areas for comparable offerings - 54.313(e)(1)(ii)(C)

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Select from the drop down menu or check the boxes below to note compliance with 54.313(f)(1). Privately held carriers must ensure compliance with the financial reporting requirements set forth in 47 CFR 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

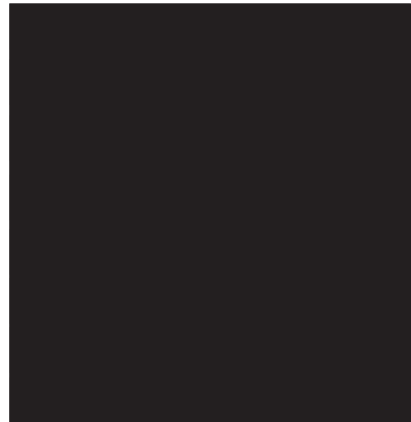
(3009)	Progress Report on 5 Year Plan Carrier certifies to 54.313(f)(1)(iii)	Yes - Attach Certification	
(3010A)	Certification of Public Interest Obligations {47 CFR § 54.313(f)(1)(i)}	532397OR3010.pdf	
(3010B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3012A)	Community Anchor Institutions {47 CFR § 54.313(f)(1)(iii)}	No - No New Community Anchors	
(3012B)	Please Provide Attachment	Name of Attached Document Listing Required Information	
(3013)	Is your company a Privately Held ROR Carrier {47 CFR § 54.313(f)(2)}	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
(3014)	If yes, does your company file the RUS annual report	(Yes/No)	<input type="radio"/> <input checked="" type="radio"/>
Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:			
(3015)	Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)		<input type="checkbox"/>
(3016)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3017)	If the response is yes on line 3014, attach your company's RUS annual report and all required documentation	Name of Attached Document Listing Required Information	
(3018)	If the response is no on line 3014, is your company audited?	(Yes/No)	<input checked="" type="radio"/> <input type="radio"/>
If the response is yes on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3019)	Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers		<input checked="" type="checkbox"/>
(3020)	Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows		<input checked="" type="checkbox"/>
(3021)	Management letter and/or audit opinion issued by the independent certified public accountant that performed the company's financial audit.		<input checked="" type="checkbox"/>
If the response is no on line 3018, please check the boxes below to confirm your submission on line 3026 pursuant to § 54.313(f)(2), contains:			
(3022)	Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers		<input type="checkbox"/>
(3023)	Underlying information subjected to a review by an independent certified public accountant		<input type="checkbox"/>
(3024)	Underlying information subjected to an officer certification.		<input type="checkbox"/>
(3025)	Document(s) with Balance Sheet, Income Statement and Statement of Cash Flows		<input type="checkbox"/>
(3026)	Attach the worksheet listing required information	Name of Attached Document Listing Required Information	532397OR3026.pdf

<b>(3005) Rate Of Return Carrier Additional Documentation (Continued)</b>	FCC Form 481
<b>Data Collection Form</b>	OMB Control No. 3060-0986/OMB Control No. 3060-0819
	July 2013

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**Financial Data Summary**

- (3027) Revenue
- (3028) Operating Expenses
- (3029) Net Income
- (3030) Telephone Plant In Service(TPIS)
- (3031) Total Assets
- (3032) Total Debt
- (3033) Total Equity
- (3034) Dividends



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**4005 Rural Broadband Experiment**

Authorized Rural Broadband Experiment (RBE) recipients must address the certification for public interest obligations, provide a list of newly served community anchor institutions, and provide a list of locations where broadband has been deployed.

**Public Interest Obligations – FCC 14-98 (paragraphs 26-29, 78)**

Please address Line 4001 regarding compliance with the Commission's public interest obligations. All RBE participants must provide a response to Line 4001.

**4001.** Recipient certifies that it is offering broadband to the identified locations meeting the requisite public interest obligations consistent with the category for which they were selected, including broadband speed, latency, usage capacity, and rates that are reasonably comparable to rates for comparable offerings in urban areas?

**Community Anchor Institutions – FCC 14-98 (paragraph 79)**

**4003a.** RBE participants must provide the number, names, and addresses of community anchor institutions to which they newly deployed broadband service in the preceding calendar year. On this line, please respond (yes – attach new community anchors, no – no new anchors) to indicate whether this list will be provided.

**If yes to 4003A, please provide a response for 4003B.**

**4003b.** Provide the number, names and addresses of community anchor institutions to which the recipient newly began providing access to broadband service in the preceding calendar year.

Name of Attached Document Listing Required Information

**Broadband Deployment Locations – FCC 14-98 (paragraph 80)**

**4004a.** Attach a list of geocoded locations to which broadband has been deployed as of the June 1st immediately preceding the July 1st filing deadline for the FCC Form 481.

Name of Attached Document Listing Required Information

**4004b.** Attach evidence demonstrating that the recipient is meeting the relevant public service obligations for the identified locations. Materials must at least detail the pricing, offered broadband speed and data usage allowances available in the relevant geographic area.

Name of Attached Document Listing Required Information

**Certification - Reporting Carrier  
Data Collection Form**

 FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

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**TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:**

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	
Signature of Authorized Officer:	Date
Printed name of Authorized Officer:	
Title or position of Authorized Officer:	
Telephone number of Authorized Officer:	
Study Area Code of Reporting Carrier:	Filing Due Date for this form:
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

<b>Certification - Agent / Carrier Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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**TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:**

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) <u>Moss Adams LLP</u> is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent:	<u>Moss Adams LLP</u>
Name of Reporting Carrier:	<u>SCIO MUTUAL TEL ASSN</u>
Signature of Authorized Officer:	<u>CERTIFIED ONLINE</u> Date: <u>06/26/2017</u>
Printed name of Authorized Officer:	<u>Thomas Barth</u>
Title or position of Authorized Officer:	<u>CEO/General Manager</u>
Telephone number of Authorized Officer:	<u>5033943366 ext.</u>
Study Area Code of Reporting Carrier:	<u>532397</u> Filing Due Date for this form: <u>07/03/2017</u>
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

**TO BE COMPLETED BY THE AUTHORIZED AGENT:**

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier:	<u>SCIO MUTUAL TEL ASSN</u>
Name of Authorized Agent Firm:	<u>Moss Adams LLP</u>
Signature of Authorized Agent or Employee of Agent:	<u>CERTIFIED ONLINE</u> Date: <u>06/26/2017</u>
Name of Authorized Agent Employee:	<u>Tym Rutkowski</u>
Title or position of Authorized Agent or Employee of Agent	<u>Senior Manager</u>
Telephone number of Authorized Agent or Employee of Agent:	<u>5097770137 ext.</u>
Study Area Code of Reporting Carrier:	<u>532397</u> Filing Due Date for this form: <u>07/03/2017</u>
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

## Attachments

## **LINE 510 - SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES COMPLIANCE**

Scio Mutual Telephone Association (“the Cooperative”) complies with applicable service quality standards and consumer protection rules for its voice and broadband services.

The Cooperative provides CPNI training to all of its new employees and in addition trains all of its existing employees on an annual basis. Further, the company conducts subscriber outreach regarding CPNI by placing CPNI explanation messages into subscriber bills. The rates, terms, and conditions under which the Cooperative operates are outlined in its local exchange tariff, which is approved by the Oregon Public Utility Commission (“Oregon PUC”). The tariff contains provisions regarding the Cooperative’s customer service and protection practices.

Service quality standards for voice service are established by the Oregon PUC. The Cooperative consistently meets or exceeds those standards and provides reports to the Oregon PUC, in accordance with the Oregon PUC’s rules.

With regard to broadband service, the Cooperative provisions its network and equipment to ensure that its customers can enjoy the speeds to which they subscribe. However, Internet speeds generally result from a “best effort” service and are dependent upon a number of variables, many of which are outside the control of the Cooperative. The Cooperative also complies with the FCC’s Open Internet rules, 47 C.F.R. §§8.3-8.11. These rules prohibit blocking, throttling, and paid prioritization, and also require the Cooperative to publicly disclose information regarding its network management practices, performance, and the commercial terms of its broadband services.

The Cooperative complies with any and all consumer protection obligations under state law.

The Cooperative also complies with the following consumer best practices: (1) the Cooperative discloses its rates and terms of service to customers; (2) the Cooperative provides specific disclosures in its advertising; (3) the Cooperative separately identifies carrier charges from taxes on its billing statements; (4) the Cooperative provides ready access to customer service; (5) the Cooperative promptly responds to consumer inquiries and complaints received from government agencies; and (6) the Cooperative abides by policies for protection of consumer privacy.

Finally, the Cooperative has a policy and established operating procedures that comply with the FCC’s Customer Proprietary Network Information (CPNI) rules (47 C.F.R. §§64.2001-64.2011).



## **LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS**

Scio Mutual Telephone Association (“the Cooperative”) is able to function in emergency situations for both voice and broadband service. Back-up power is provided to the Cooperative’s central office by use of a fixed generator that will provide indefinite power as long as fuel is replenished and batteries that provide 16 hours of emergency battery power.

The Cooperative has synchronous optical network (“SONET”) and dense wavelength division multiplexing (“DWDM”) technologies deployed in its core fiber optic network which is self-healing and will automatically reroute traffic should a fiber cut occur. The Cooperative also has sufficient spare cards for its fiber optic network to provide almost instantaneous replacement should there ever be a card failure in the core network. The Cooperative has proper staff in place to repair any fiber cuts in a timely manner.

The Cooperative has connectivity with neighboring telephone exchanges as well as the LATA tandem to provide diverse options to reroute traffic should an emergency arise. The Cooperative has developed and trained its staff on network preparedness plans in case of emergency situations. The Cooperative is prepared and capable of managing traffic spikes resulting from emergency situations and has sufficient switching capabilities to handle such situations.

<b>(700) Price Offerings including Voice Rate Data</b> <b>Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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July 2013

<701>	Residential Local Service Charge Effective Date	1/1/2017
<702>	Single State-wide Residential Local Service Charge	14.5

[illegible]

<b>(710) Broadband Price Offerings</b> <b>Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010>	Study Area Code	532397
<015>	Study Area Name	SCIO MUTUAL TEL ASSN
<020>	Program Year	2018
<030>	Contact Name - Person USAC should contact regarding this data	Deborah Hogan
<035>	Contact Telephone Number - Number of person identified in data line <030>	5033943369 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	debbie.hogan@smta.coop

[illegible]

(800) Operating Companies	FCC Form 481
Data Collection Form	OMB Control No. 3060-0986/OMB Control No. 3060-0819
	July 2013

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

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## **LINE 1010 – VOICE SERVICES RATE COMPARABILITY**

The Wireline Competition Bureau’s 2017 reasonable comparability benchmark for voice services is \$49.51, which includes the federal subscriber line charge (“SLC”).<sup>1</sup>

As of January 1, 2017, Scio Mutual Telephone Association’s (“the Cooperative”) highest single-line residential local rate, including a mandatory extended area service charge, was \$27.50. When the federal SLC (\$6.50) is included, the rate was \$34.00.

Therefore, the Cooperative’s pricing of voice services is less than the reasonable comparability benchmark of \$49.51.

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<sup>1</sup> *Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations*, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017).

## **LINE 1030 – BROADBAND SERVICES RATE COMPARABILITY**

As of January 1, 2017, Scio Mutual Telephone Association was charging a residential rate of \$58.95 for broadband providing 15 Mbps download, 3 Mbps upload, and an unlimited usage allowance. This rate is lower than \$83.82, which is the 2017 reasonable comparability benchmark for the same offering established by the Wireline Competition Bureau.<sup>1</sup>

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<sup>1</sup> Wireline Competition Bureau Announces Results of 2017 Urban Rate Survey for Fixed Voice and Broadband Services, Posting of Survey Data and Explanatory Notes, and Required Minimum Usage Allowance for ETCs Subject to Broadband Public Interest Obligations, Public Notice, WC Docket No. 10-90, 32 FCC Rcd 1358 (2017). See also, <https://www.fcc.gov/general/reasonable-comparability-benchmark-calculator>

## **LINE 1210 – TERMS & CONDITIONS OF VOICE TELEPHONY LIFELINE PLANS**

Residential customers of Scio Mutual Telephone Association (“the Cooperative”) who qualify for the Lifeline Program receive a discount of \$12.75 (\$9.25 federal discount + \$3.50 state discount) on local voice telephony service.

The Cooperative has three rate plans for local voice service that are available to all of its customers, including Lifeline customers. The first rate plan is entirely flat-rated. The Lifeline single-line residential rate, including a mandatory extended area service (“EAS”) charge and the federal subscriber line charge (“SLC”), is \$19.90 (\$32.65 standard rate - \$12.75 discount).

The second rate plan is also entirely flat-rated. The Lifeline single-line residential rate, including a mandatory EAS charge and the federal SLC, is \$21.25 (\$34.00 standard rate - \$12.75 discount).

The third rate plan is a measured-rate plan in which calls within the local calling area are flat-rated and EAS calls are charged at \$.08/minute. Therefore, the precise Lifeline rate for this plan will vary depending upon the amount of EAS calling. Based on the average level of EAS calling of customers that subscribe to this plan, the Lifeline single-line residential rate, including the EAS charges and the federal SLC, is approximately \$9.63 (\$22.38 standard rate - \$12.75 discount).

All single-line residential customers, including Lifeline customers, have an unlimited number of minutes for calls made within the local calling area. Lifeline customers that subscribe to the first and second rate plans can also make an unlimited number of calls to an EAS area with no additional charges.

Toll charges for calls outside of the local calling area and EAS areas are determined by the long distance carrier of the customer’s choosing. Customers may elect to subscribe to toll blocking at no charge.

Lifeline Program reductions do not apply to additional services such as custom calling features. Lifeline customers may subscribe to these services, where available, at the same rates offered to other customers. Lifeline customers may subscribe to any voice telephony service bundle that is generally available to the public and will receive the \$12.75 Lifeline discount off the regular price of the bundle.

Additional information regarding the terms and conditions of the Cooperative’s voice telephony Lifeline plans can be found at <http://smta.coop/telephone/newsletter/>.

**LINE 3010 – CERTIFICATION OF PUBLIC INTEREST OBLIGATIONS**

Scio Mutual Telephone Association (“the Cooperative”) hereby certifies that the Cooperative has taken reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas, and that requests for such service were met within a reasonable amount of time.



# Scio Mutual Telephone Association and Subsidiary

Consolidated Financial Statements  
with Supplemental Information

Years Ended December 31, 2016 and 2015





**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**  
**Consolidated Financial Statements with Supplemental Information**  
**Years Ended December 31, 2016 and 2015**

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Aldrich CPAs + Advisors LLP

680 Hawthorne Avenue SE, #140

Salem, Oregon 97301

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Scio Mutual Telephone Association and Subsidiary  
Scio, Oregon

We have audited the accompanying consolidated financial statements of Scio Mutual Telephone Association and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scio Mutual Telephone Association and Subsidiary, as of December 31, 2016 and 2015, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Consolidating Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I-II are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Aldrich CPAs + Advisors LLP*

Salem, Oregon  
March 7, 2017

**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Consolidated Balance Sheets**

December 31, 2016 and 2015

**ASSETS**

2016

2015

Current Assets:

Cash and cash equivalents  
Accounts receivable, net of allowance for doubtful  
accounts of zero  
Current portion of note receivable  
Materials and supplies  
Prepaid expenses

Total Current Assets

Other Assets and Investments:

Note receivable  
Other Investments  
Prepaid pension cost

Total Other Assets and Investments

Property, Plant, and Equipment:

Telecommunications  
Cable television  
Nonregulated equipment

Less accumulated depreciation

Property, Plant, and Equipment, net

**LIABILITIES AND MEMBERS' EQUITY**

Current Liabilities:

Accounts payable  
Accrued expenses  
Customer deposits  
Patronage capital payable

Total Current Liabilities

Members' Equity:

Patronage capital  
Other equities

Total Members' Equity

See accompanying notes to consolidated financial statements.



**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Consolidated Statements of Operations**

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues:		
Local network		
Internet		
Network access		
Miscellaneous		
Total Operating Revenues		
Operating Expenses:		
Plant specific		
Plant nonspecific		
Depreciation		
Customer		
Corporate		
Other taxes		
Total Operating Expenses		
Operating Margin		
Other Expense, net		
Net Margin		

**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Consolidated Statements of Members' Equity**

Years Ended December 31, 2016 and 2015

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
Balance, December 31, 2014				
Net margin				
Federal communications excise tax refund				
Retirement of patronage capital for remaining 2001 allocation and a portion of 2002				
Estate payouts - net				
Patronage capital credits reclaimed				
Refund of memberships, net				
Balance, December 31, 2015				
Net margin				
Federal communications excise tax refund				
Retirement of patronage capital for remaining 2002 allocation				
Estate payouts - net of discounts				
Patronage capital credits reclaimed				
Balance, December 31, 2016				

**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Consolidated Statements of Cash Flows**

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Net margin		
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation		
Nonregulated depreciation		
Noncash patronage		
Changes in assets and liabilities:		
Accounts receivable		
Materials and supplies		
Prepaid expenses		
Accounts payable		
Accrued expenses		
Customer deposits		
Prepaid pension cost		
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Issuance of note receivable		
Purchase of property, plant, and equipment		
Proceeds from other investments		
Net Cash Used by Investing Activities		
Cash Flows from Financing Activities:		
Federal excise tax refund		
Payments of capital credits, net		
Memberships retired		
Net Cash Used by Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
Cash and Cash Equivalents, beginning		
Cash and Cash Equivalents, ending		
Cash Paid During the Year for Taxes		

See accompanying notes to consolidated financial statements.



## SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY

### Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

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#### Note 1 - Organization and Summary of Significant Accounting Policies

##### Organization

Scio Mutual Telephone Association (the Association) is an Oregon cooperative corporation providing telecommunications services within and around the city of Scio, Oregon. The Association provides cable television services to a similar area through Scio CableVision, Inc., its wholly-owned Subsidiary. Scio Mutual Telephone Association and Scio CableVision, Inc. both have a 20-year franchise agreement with the City of Scio, Oregon, expiring in 2029.

##### Basis of Consolidation

The consolidated financial statements include the accounts of the Association and Scio CableVision, Inc. All intercompany transactions and balances have been eliminated in the consolidation.

##### Basis of Accounting

The Association's consolidated financial statements are prepared on the accrual basis of accounting in conformity with the accounting principles generally accepted in the United States of America applicable to regulated enterprises.

##### Regulation

The Association is subject to limited regulation by the Federal Communications Commission (FCC) and the Public Utility Commission of Oregon (PUC). The Association maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the FCC and adopted by the PUC. As a result, the application of accounting principles generally accepted in the United States of America by the Association differs in certain respects from the application by nonregulated businesses. Such differences primarily concern the time at which certain items enter into the determination of net margin.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Association's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

##### Cash and Cash Equivalents

The Association considers all liquid investment securities purchased with a maturity of 3 months or less to be cash equivalents. The Association maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor, per financial institution. At December 31, 2016, the Association's total uninsured cash balance was [REDACTED] in 2015).

The Association has not experienced any losses in its bank deposit accounts and believes it is not exposed to any significant credit risk on cash.

##### Accounts Receivable

The Association extends credit to its members and others. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established. No allowance for doubtful accounts was recorded at December 31, 2016 and 2015. Past due status is determined based on the age of the past due account. Receivables are written off when the Association determines an account is uncollectible.

##### Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

##### Fair Value of Financial Instruments

The Association's financial instruments, none which are held for trading purposes, include cash and cash equivalents, receivables, and accounts payable. The Association estimates that the fair value of all of these non-derivative financial instruments at December 31, 2016 and 2015 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheets.



## SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY

### Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

#### Note 1 - Organization and Summary of Significant Accounting Policies, continued

##### Property, Plant, and Equipment

Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 3.6% to 33.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation in accordance with industry practice.

Cable television and other nonregulated property and equipment in service and under construction are stated at cost. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment. Asset lives range from 3 to 30 years. Maintenance, repairs, and replacements are charged to expense as incurred. When property and equipment is sold or otherwise disposed of, the asset account and the related accumulated depreciation accounts are relieved and any gain or loss is included in operations.

##### Network Access Revenues

Network access revenue is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Association, charge the long-distance carrier for access and interconnection to local facilities. The Association has elected to file access tariffs through the National Exchange Carriers Association (NECA) and directly with the PUC for these charges. These access tariffs are subject to approval by the FCC for interstate charges and the PUC for intrastate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Association. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investments maintained.

The Association participates in pooling arrangements with NECA.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

In addition to recoveries from the pools, the Association receives revenues from the Universal Service High Cost Loop Fund (HCL) and other support mechanisms administered by the Universal Service Administrative Company (USAC). These universal service support revenues are intended to compensate the Association for the high cost of providing service in rural areas. The amount of support received from the HCL is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC. See National Broadband Plan and FCC Order below for further information related to reforms to these support mechanisms. These support revenues are included in the network access revenues in the accompanying consolidated financial statements. In 2016, the Association received [REDACTED] (\$[REDACTED] in 2015) from the USAC High Cost Loop Fund and [REDACTED] (\$[REDACTED] in 2015) in interstate access revenues administered through the NECA Pools.

The Association also receives funding from state universal service funds. In 2016, the Association received [REDACTED] (\$[REDACTED] in 2015) from the Oregon Universal Service Fund (OUSF). Funding levels for the OUSF were determined in accordance with PUC Order 13-162 which ended June 30, 2016. In March 2016, the PUC issued order 16-093 related to OUSF. The order is for a 5 year term beginning January 1, 2017 and calls for annual reductions to the OUSF that will result in an overall reduction of not less than 15.2% over the 5 year term for rural companies. In addition, rural companies will be subject to a re-allocation process over the term of the order, but no company can have its support reduced by more than 20% over this period as a result of this process. The full impact of the order cannot be determined at this time.



## SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY

### Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

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#### Note 1 - Organization and Summary of Significant Accounting Policies, continued

##### National Broadband Plan and FCC Order

In 2010, the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetration rates and services throughout the United States of America.

In 2011, as an initial response to the plan, the FCC approved Report and Order 11-161 (the Order), that began the process of reforming the universal service and Intercarrier Compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further created the Connect America Fund (CAF) which will ultimately replace all existing high-cost support mechanisms and help facilitate ICC reform.

The key provisions of the Order include capping the federal universal service fund (USF), placing limitations on capital and operating expenditures (subsequently eliminated in 2014 by an Order for Reconsideration issued by the FCC), establishing local rate benchmarks, capping monthly USF at \$250 per line, a 5% annual reduction of local switching support to be replaced by the CAF to recover costs of switching services, a 9 year transition from the previous ICC system to bill and keep, and adoption of the Access Recovery Charge (ARC) to mitigate impacts of reduced ICC revenues. Implementation of this transition began July 1, 2012.

In 2016, the FCC issued Order 16-33, which provided the option for a voluntary election by rate-of-return carriers to receive model-based support under the Alternative Connect America Cost Model (A-CAM). The Association was not eligible to receive model based support under A-CAM. Carriers not electing or eligible for A-CAM will continue to receive support based on their costs, however these legacy support mechanisms are modified by Order 16-33. The main changes for carriers remaining on legacy support are as follows:

- Interstate Common Line Support (ICLS) will be transitioned to the CAF-Broadband Line Support (CAF-BLS), which will provide support for voice and voice-data lines, as well as broadband only lines. Additionally, the fund for CAF-BLS will be limited to \$2 billion dollars.
- The prescribed rate of return will be reduced by 0.25% annually starting July 1, 2016, effectively reducing the rate of return from 11.25% to 9.75% over 5 years.
- Carriers will have broadband deployment obligations based on the current availability of 10/1 mbps broadband service in applicable study areas.
- Support will be phased out in census blocks with 85% or more of competitive overlap by unsubsidized competitors offering 10/1 mbps broadband. Lost support will be phased out over 3 to 6 years depending on the severity of support lost.
- Regression calculations will be used to limit capital and operating expenditures on a prospective basis.

The Association continues to monitor various effects and requirements of the Orders noted above. As of December 31, 2016, the Association does not meet the local rate benchmark requirements of the Order, however, the impact on support received as a result has not been significant. The Association is not subject to the \$250 per line support cap. Furthermore, for the period ended December 31, 2016, the impact to the Association related to the 5% annual decline in switched access revenues and the 0.25% reduction of the prescribed rate of return have not been significant.

The overall reform process will continue to take place in phases and will take several more years to implement. Furthermore, it is anticipated that the FCC will continue to issue Further Notices of Proposed Rulemaking and/or Orders for Reconsideration and continue to seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.



## SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY

### Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

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#### Note 1 - Organization and Summary of Significant Accounting Policies, continued

##### Memberships

The Association is no longer charging a membership fee to new customers. Prior to 2015, the Association charged a refundable \$25 membership fee to new members.

##### Patronage Capital

The net margin of the Association is allocated to its patrons in proportion to the patrons' annual charges for service and is subject to retirement at the discretion of the Board of Directors. During 2015 the Association established a policy whereby estate and disconnected service capital credits would be paid out at a one-time discounted rate of 80% with a cap of \$10,000 or alternatively, would be paid out over the course of the normal retirement schedules.

##### Other Equities

Other Equities consist of amounts that have not been allocated to patrons and include net margins prior to 1963, initial capital contributions made at the inception of the Association, subsequent nonmember contributions of plant facilities and forfeited unclaimed patronage capital credits.

##### Estimates

The Association uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

##### Income Taxes

The Association has been granted an exemption from federal income taxes, except for "unrelated" business income, under Section 501(c)(12) of the Internal Revenue Code. The Association is also exempt from state income taxes. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Association becomes a taxable cooperative. The Association was exempt from income taxes in 2016 and 2015. Federal and state taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated or paid to patrons within 8 1/2 months after the end of each taxable year. Scio CableVision, Inc. is a taxable corporation and files a separate tax return.

Deferred taxes represent the future tax return consequence of differences between the financial statement and the tax basis of assets and liabilities, which will either be taxable or deductible when the related assets or liabilities are recorded or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Association follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Association recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There were no amounts accrued in the consolidated financial statements related to uncertain tax positions.

##### Revenue Recognition

The Association recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone service, internet and cable television are billed in advance. Accounts receivable are reduced by advanced billings, which are subsequently transferred to income in the period earned. Access charges (see Note 1, Network Access Revenue), long distance and other revenues based on usage are billed in arrears.

**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2016 and 2015

**Note 1 - Organization and Summary of Significant Accounting Policies, continued**

Subsequent Events

The Association has evaluated subsequent events through March 7, 2017, which is the date the consolidated financial statements were available to be issued.

**Note 2 - Notes Receivable**

During 2016, the Association issued a [REDACTED] note receivable in the amount of [REDACTED], receivable in a minimum quarterly installment of [REDACTED] including interest beginning in 2017, due in November 2021.

	2016	2015
Total note receivable	\$ [REDACTED]	\$ [REDACTED]
Less current portion	[REDACTED]	[REDACTED]
Note receivable, net of current portion	\$ [REDACTED]	\$ [REDACTED]

**Note 3 - Other Investments**

Other investments are recorded at cost and consist of the following:

Rural Telephone Finance Cooperative (RTFC)	\$ [REDACTED]
National Information Solutions Cooperative (NISC)	[REDACTED]
Security America Risk Retention Group, Inc.	\$ [REDACTED]

**Note 4 - Property, Plant, and Equipment**

Listed below are the major classes of telecommunications and cable television plant:

	2016	2015
<i>Telecommunications:</i>		
Land and support	\$ [REDACTED]	\$ [REDACTED]
Central office	[REDACTED]	[REDACTED]
Cable and wire facilities	[REDACTED]	[REDACTED]
Construction in progress	[REDACTED]	[REDACTED]
Plant held for future use	\$ [REDACTED]	\$ [REDACTED]
<i>Cable Television:</i>		
Headend	\$ [REDACTED]	\$ [REDACTED]
Station equipment	[REDACTED]	[REDACTED]
Distribution	[REDACTED]	[REDACTED]
Other equipment	\$ [REDACTED]	\$ [REDACTED]



**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2016 and 2015

**Note 5 - Income Taxes**

For the years ended December 31, 2016 and 2015, the Association was exempt from federal income taxes (see Note 1). As a result, the Association will file a separate return for Scio CableVision, Inc.

Deferred income tax assets are computed annually for differences between the financial statement and tax basis of assets that will result in taxable or deductible amounts in the future and consist of the following:

	2016	2015
Long-term deferred tax asset:		
Property, plant and equipment	\$	
Net operating loss carryforwards		
Valuation allowance		
Net deferred tax asset	\$	

Long-term deferred income tax assets result from net operating loss carryforwards generated by Scio CableVision, Inc. and differences in the methods and lives used to calculate depreciation for tax reporting and financial statement reporting. Scio CableVision, Inc. has net operating loss carryforwards of approximately [REDACTED] for federal and [REDACTED] for state that may be used to offset future taxable income through 2032.

A valuation allowance has been recorded against the deferred tax asset because of the uncertainty regarding the realizability of these benefits due to historical operating losses. The net change in the valuation allowance for deferred tax assets was an increase of [REDACTED] for the year ended December 31, 2016.

**Note 6 - Other Equities**

Other equities consist of the following:

	2016	2015
Prior years' unallocated net margin	\$	
Gain on retirement of patronage capital		
Capital credits reclaimed		
Contributed capital	\$	

**Note 7 - Multiemployer Pension Plan**

The National Telecommunications Cooperative Association (NTCA) Retirement and Security Program for Employees of the NTCA and its Member Systems (the Plan) is a defined benefit pension plan covering many of the full-time employees of NTCA, its affiliates, and its members that have adopted the Plan. Pursuant to IRC Section 413(c)(4), the Plan is considered a Multiple Employer (other) Master Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan's employer identification number is 52-0741336 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

# SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY

## Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

### Note 7 - Multiemployer Pension Plan, continued

The Association is a participant in the above described plan. The Association's contributions to the Plan in 2016 and 2015 represented [REDACTED] of the total contributions made to the Plan by all participating employers. The Association made contributions to the Plan of [REDACTED] in 2016 and [REDACTED] in 2015. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

In the Plan, a "zone status" determination is not required and therefore, not determined under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations of Plan assets are not determined or allocated separately by individual employer. In total, the Plan was approximately [REDACTED] funded at January 1, 2016, based on the PPA funding target and PPA actuarial value of assets on that date.

Because the provisions of the PPA do not apply to the Plan, funding improvement plans and surcharges are not applicable under the PPA (see below for Plan determined surcharges). Future contribution requirements are determined each year as part of the actuarial valuation of the Plan and may change as a result of plan experience. There is no collective bargaining agreement that affects future contribution requirements.

In 2016 the Association was notified by NTCA of certain amendments to the Plan that will impact the Association. These amendments include the following items:

- The contribution rate to fund basic benefits will increase by 19% starting January 1, 2017. The Association is not required to increase their contribution percentage.
- The current surcharge of 25% will expire at the end of 2017 and a new surcharge of 50% of the Association's elected contribution rate will start in 2018. The surcharge is expected to continue for approximately 12 years.
- Participating members have a one-time opportunity to elect to prefund the surcharge contribution.

The Association opted to prefund surcharges in the amount of [REDACTED] during the year ended December 31, 2016. The Association's prefunded contribution will be maintained in a notational account for their specific use to be applied to the annual surcharge. The account funds will be invested with other Plan Assets and will grow at the same rate as the Plan's overall investment returns or losses.

The Association's balance in this account at December 31, 2016 is [REDACTED] and is included in prepaid pension cost in the accompanying consolidated balance sheets. Amounts will be recognized as expense when used to fund the annual surcharge.

The Association also participates in a fixed savings plan sponsored by NTCA which covers all full-time employees. In 2016, the Association contributed [REDACTED] of each eligible employee's salary to the plan ([REDACTED] of each eligible employee's salary in 2015). The Association's contribution to the plan, including amounts charged to construction at December 31, 2016, was [REDACTED] ([REDACTED] at December 31, 2015).

### Note 8 - Other Income and Expense

The following is a summary of other income and expense included in the consolidated statements of operations for the year ended December 31:

	2016	2015
Interest and dividends	\$ [REDACTED]	\$ [REDACTED]
Other nonregulated operations, net	\$ [REDACTED]	\$ [REDACTED]
Other Expense, net	\$ [REDACTED]	\$ [REDACTED]

SUPPLEMENTAL INFORMATION



**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Consolidating Balance Sheets**

December 31, 2016

	Scio Mutual Telephone Association	Scio CableVision, Inc.	Eliminations	Total
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$			
Accounts receivable, net of allowance for doubtful accounts of zero				
Current portion of note receivable				
Materials and supplies				
Prepaid expenses				
Total Current Assets				
Other Assets and Investments:				
Note receivable				
Other Investments				
Prepaid pension cost				
Total Other Assets and Investments				
Property, Plant, and Equipment:				
Telecommunications				
Cable television				
Nonregulated equipment				
Less accumulated depreciation				
Property, Plant, and Equipment, net				
	\$			

LIABILITIES AND MEMBERS' EQUITY	Scio Mutual Telephone Association	Scio CableVision, Inc.	Eliminations	Total
Current Liabilities:				
Accounts payable	\$			
Accrued expenses				
Customer deposits				
Patronage capital payable				
Total Current Liabilities				
Members' Equity:				
Common stock				
Patronage capital				
Other equities				
Total Members' Equity	\$			

**SCIO MUTUAL TELEPHONE ASSOCIATION and SUBSIDIARY**

**Consolidating Statements of Operations**

Year Ended December 31, 2016

Schedule II

	Scio Mutual Telephone Association	Scio CableVision, Inc.	Eliminations	Total
Operating Revenues:				
Local network	\$			
Internet				
Network access				
Miscellaneous				
Total Operating Revenues				
Operating Expenses:				
Plant specific				
Plant nonspecific				
Depreciation				
Customer				
Corporate				
Other taxes				
Total Operating Expenses				
Operating Margin (Loss)				
Other Expense, net				
Net Margin (Loss)	\$			